

'00 APR 21 PM 3 35

EXCEL

BEFORE THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE

In Re: Application of United Cities Gas Company)
To Establish an Experimental Performance-Based)
Ratemaking (PBR) Mechanism)

Docket No. 97-01364

COMPLIANCE FILING REGARDING AFFILIATED TRANSACTION

COMES NOW United Cities Gas Company, a division of Atmos Energy Corporation (United Cities) and in accordance with the provisions contained in the Tennessee Regulatory Authority's (Authority) Final Order On Phase Two issued on August 16, 1999, in the above captioned matter (hereinafter referred to as the "Authority's Order"), and in accordance with the Tennessee Guidelines for United Cities Gas Company's Affiliate Transactions, which are attached to the Authority's Order, and which are attached to an Order issued by the Authority dated December 3, 1999, in this matter, makes the following compliance filing with the Authority.

1. The Authority's Order issued on August 16, 1999, in this matter contains the following provision:

Prior to any affiliate transactions being included in the computation of savings or losses from this performance-based ratemaking mechanism, said affiliate transactions must first comply with the Tennessee Guidelines for United Cities Gas Company's Affiliate Transactions. Documentation of compliance is to be presented by the Company to the Authority during the TRA's annual audit of the Incentive Plan Account. The Authority, at the conclusion of each annual audit, will make a determination of the Company's compliance with all of the affiliate guidelines;

THIS COMPLIANCE FILING CONTAINS CONFIDENTIAL AND COMPETITIVELY SENSITIVE INFORMATION THAT UNITED CITIES GAS COMPANY REQUESTS THAT THE AUTHORITY KEEP CONFIDENTIAL.

POSTED

Authority's Order, page 27.

2. The Tennessee Guidelines for United Cities Gas Company's Affiliate Transactions include the following guideline:

10. When the Company purchases information, assets, goods or services from an affiliated entity, the Company shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

Tennessee Guidelines for United Cities Gas Company's Affiliate Transactions, paragraph 10, page 2.

3. The order issued by the Authority in this matter on December 3, 1999, which made a determination of United Cities' compliance with affiliated guidelines for year one of the Company's permanent PBR plan (April 1, 1999-March 31, 2000), contained the following requirement:

4. On a going-forward basis, Standard of Conduct No. 10 will be in effect and United Cities must provide proof of competitive bids before a contract with an affiliate will be included in the PBR computation.

Order Re: Determination Of Compliance With Affiliate Guidelines, Docket No. 97-01364, dated December 3, 1999, page 8.

4. Based upon the above mentioned guidelines and requirements, United Cities issued a Request for Proposal (RFP) seeking proposals from non-affiliated natural gas suppliers to supply United Cities' firm gas supply requirements for its Tennessee and Virginia service areas. The proposed term of the agreement was for a one year period beginning April 1, 2000. The RFP was issued, in part, so United Cities could evaluate and determine if the current contract price under the Woodward Marketing L.L.C. (Woodward) contract was still competitive with prices being offered by other suppliers.

THIS COMPLIANCE FILING CONTAINS CONFIDENTIAL AND COMPETITIVELY SENSITIVE INFORMATION THAT UNITED CITIES GAS COMPANY REQUESTS THAT THE AUTHORITY KEEP CONFIDENTIAL.

5. The RFP indicated that United Cities would provide the gas supplier with a Gas Purchase Plan and Storage Plan and that United Cities would purchase volumes from the gas supplier pursuant to these plans. The RFP also indicated that the proposals submitted by the gas supplier should include a commodity price at a plus (+) or minus (-) basis of the simple arithmetic average of three indices (Inside FERC Gas Market Report, Natural Gas Intelligence and Nymex) to establish a per unit price for each applicable pipeline. The proposed terms and conditions contained in the RFP, are the same as the terms and conditions contained in United Cities' current gas supply contract with its affiliate, Woodward. A copy of the RFP issued by United Cities is attached to this compliance filing as Exhibit A, and is incorporated herein by reference.

6. United Cities sent the RFP to eight major national gas suppliers: Aquila Energy, Duke Energy, El Paso Marketing, Enron, Pan Canadian, P G & E Energy Trading, Southern Co. and Williams Energy Marketing and Trading Co.

7. In response to its RFP, United Cities received competitive bids from three of the gas suppliers: El Paso Marketing, P G & E Energy Trading and Southern Co. Energy Marketing, L.P. A copy of each of these bids is attached to this compliance filing as Exhibit B, and is incorporated herein by reference. These bids are being submitted to the Authority under seal, and United Cities would request that the Authority treat these documents as containing highly confidential and competitively sensitive information.

8. Upon receipt of the three bids, United Cities' Gas Supply Planning employees submitted their evaluation and analysis of the bids to the management of United Cities. A summary of that evaluation is attached to this compliance filing as Exhibit C, and is incorporated herein by reference. Because United Cities' summary of its evaluation of the bids contains the highly

THIS COMPLIANCE FILING CONTAINS CONFIDENTIAL AND COMPETITIVELY SENSITIVE INFORMATION THAT UNITED CITIES GAS COMPANY REQUESTS THAT THE AUTHORITY KEEP CONFIDENTIAL.

confidential and competitively sensitive information contained in the bids received by United Cities, this information is being submitted under seal. United Cities would request that the Authority treat the information contained in Exhibit C as confidential.

9. Based upon its evaluation of the bids received from these other gas suppliers, United Cities' management has determined that the contract price under the Woodward contract is competitive with the prices offered by the other suppliers.

10. United Cities' respectfully submits that the information being provided in this compliance filing clearly demonstrates that the affiliated transaction with Woodward complies with the above mentioned guidelines and requirements established by the Authority in this docket and that the Woodward contract should continue to be included in the PBR computation for the period April 1, 2000 through March 31, 2001.

Respectfully submitted,



James G. Flaherty, Kansas Supreme Court No. 11177
ANDERSON, BYRD, RICHESON, FLAHERTY & HENRICH
216 S. Hickory, P. O. Box 17
Ottawa, Kansas 66067
(785) 242-1234

Mr. Mark G. Thessin, Tennessee Bar No. 13662
UNITED CITIES GAS COMPANY
800 Crescent Centre Drive, Suite 600
Franklin, Tennessee 37067
(615) 771-8330

Attorneys for United Cities Gas Company, a division of
Atmos Energy Corporation

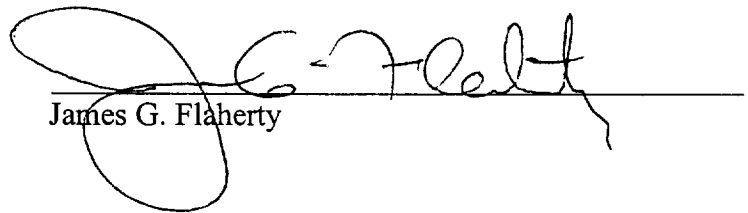
THIS COMPLIANCE FILING CONTAINS CONFIDENTIAL AND COMPETITIVELY SENSITIVE INFORMATION THAT UNITED CITIES GAS COMPANY REQUESTS THAT THE AUTHORITY KEEP CONFIDENTIAL.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was mailed, postage prepaid, this 21st day of March, 2000, addressed to:

Mr. L. Vincent Williams
Mr. Vance Broemel
Consumer Advocate Division
426 5th Avenue North, 2nd Floor
Nashville, Tennessee 37243

Mr. Richard Collier
Tennessee Regulatory Authority
Legal Division
460 James Robertson Parkway
Nashville, Tennessee 37243



James G. Flaherty

THIS COMPLIANCE FILING CONTAINS CONFIDENTIAL AND COMPETITIVELY SENSITIVE INFORMATION THAT UNITED CITIES GAS COMPANY REQUESTS THAT THE AUTHORITY KEEP CONFIDENTIAL.